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Perspective

Ukraine: Evolving Economic and Security Policies (U)

With political considerations guiding economic policy, Ukraine is not likely to adopt a radical economic reform program in the near future. [redacted]

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Even if Kravchuk decided to pursue real market reforms, he would have little indigenous economic expertise to draw on, and he would face a conservative society resistant to change, suspicious of the inequalities of the marketplace, and ambivalent about the cost of reform. There is little evidence that the government is attempting to prepare the population for radical reform. However, further economic decline—a virtual certainty—and on-the-ground advice from international financial institutions may help persuade the government to act more boldly. In any event, Ukrainian economic reform, if it comes at all, will more closely resemble the gradualist Czechoslovak model than the Polish "shock therapy" one that helped inspire Russia's reforms. [redacted]

Ukraine's preoccupation with asserting its sovereignty has also driven its stance on security issues and will continue to bedevil relations between Moscow and Kiev. Ukraine has moved swiftly to begin building its own army. It intends to bring back all Ukrainian members of the former USSR armed forces by the end of 1993. Despite Moscow's rejection of Ukrainian claims to the Black Sea Fleet, Ukraine has also begun to establish its own naval command with fleet officers. With Ukraine actively agitating for the loyalty of fleet personnel, further delay by Russia in resolving the disposition of fleet assets will work only to Ukraine's advantage. [redacted]

Tensions over the disposition of nuclear weapons will also continue, if not get worse. Kravchuk is attempting a difficult balancing act, adhering to Ukraine's nonnuclear pledge and commitments made at his meeting with President Bush while trying to co-opt nationalist elements calling for Ukraine to retain nuclear weapons—or at least not relinquish them to Russia. [redacted]

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Even as he appears to be abiding by his pledge to remove all tactical nuclear weapons to Russian territory by July 1992, Kravchuk's support for the removal and destruction of strategic nuclear weapons later in the decade is still problematic. [redacted]

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Status of Economic Reform in Ukraine (U)

Economic reform to date has been piecemeal and reactive, and prospects for radical economic reform in Ukraine are negligible. The reform that has taken place is being driven by Kiev's desire to counteract Russian moves and is not focused on true market reform. Kiev strongly opposed Moscow's 2 January price liberalization, but, to keep Russia's action from drawing cheaper Ukrainian goods out of Ukraine and into the Russian market, Kiev briefly allowed prices to rise. It has since reimposed state control over some prices. Kiev has increasingly attributed its economic woes to Moscow and a fierce debate is occurring in Kiev over drastically reducing economic ties to Russia to separate Ukraine from Russian reform efforts. [redacted]

Competing Economic Reform Plans

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The Ukrainian parliament gave preliminary approval in late April to a [redacted] economic policy plan prepared by ex-[redacted] Aleksandr Yemelyanov and initially endorsed by Kravchuk. This statement of national economic policy, characterized by nationalists as a declaration of economic independence from Russia, would supplant the ruble with the new, multiuse coupons and eventually a separate Ukrainian currency. The document would discourage trade with Russia by reducing imports from, and imposing tariffs on exports to, Russia and other former Soviet republics, while providing incentives for trade with the West. It would also mandate a gradual reform program, specifically moving away from "shock therapy." [redacted]

The plan envisions that the state will acquire new economic emergency powers—including wage and price controls—to deal with an impending economic crisis. As a sop to reformers, it also contains some promarket aspects such as curbing the budget deficit by lowering subsidies, freeing agricultural prices, and emphasizing privatization of small enterprises. In addition, foreign investment is to be encouraged through favorable tax breaks, majority foreign ownership, and the elimination of taxes on exports to non-Commonwealth states. [redacted]

Ukraine's most promarket advocates blasted Yemelyanov's plan, labeling it "protectionist," "antimarket," and a looming "tragedy for Ukraine." The head of the Research Institute of Ukraine's National Bank, Aleksandr Savchenko, claims that the plan, which deemphasizes reform and advocates trade barriers, will not meet IMF approval and that, consequently, Ukraine would not receive badly needed Western credits. Volodymyr Grinev, Deputy Chairman of parliament and head of an influential reform group, claims the plan sets up a suicidal confrontation with Russia. [redacted]

Volodymyr Lanovyy, a reformer who was recently appointed Deputy Prime Minister in charge of economic reform, apparently was not involved in drafting the Yemelyanov plan. Lanovyy and his team had reportedly been working on, with the help of Western advisers, an economic reform plan that was submitted to the IMF in early April. The plan follows the Czechoslovak model of gradual reform, which moves toward privatization and uses a voucher scheme and an incremental approach to price decontrol on key consumer items. The plan's reform strategy also reportedly includes antimonopoly legislation, creation of a legal framework for entrepreneurial activity, and imposition of fiscal and monetary discipline. At the same time, Kravchuk, stung by the furor over the Yemelyanov plan, reportedly authorized Lanovyy and his team to amend it. [redacted]

Commitment to Reform

Kravchuk's initial endorsement of the conservative economic policy plan indicates that he is not yet prepared to support a rapid, or perhaps even a measured, transition to the market [redacted]

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pressure from Griaev and other reformers in parliament. Despite promising Lanovyy "full control" in forming economic reform policy, Kravchuk has yet to heed his advice or to vet economic appointments with him. Moreover, the crucial post of prime minister remains in the hands of Vitold Fokin, who has consistently stifled reform efforts. [redacted]

To arrest Ukraine's economic slide and set the stage for economic recovery, Kravchuk must make a personal commitment to market reforms. Replacing Fokin with a committed reformer and removing former Communist officials who would still be able to undercut reform would signal that Kravchuk is prepared to cross the reform Rubicon. In addition, Kravchuk and parliament would have to empower Lanovyy and his reform team to push through unpopular reform measures. [redacted]

Reformers in parliament, backed by Western technical advisers, have recently passed legislation on a potentially far-reaching privatization plan that envisions privatizing up to 85 percent of small enterprises within one year. To accompany the privatization effort, Kravchuk issued a decree in March that doubled the savings in personal savings accounts, with the stipulation that the savings must be used to buy privatization certificates. The decree has fueled speculation that Kravchuk is preparing to implement an aspect of reform—privatization of services and small businesses—that has proved to be the least controversial in other ex-Communist states. Parliament also passed legislation that revamped the tax system and approved a liberal foreign investment law, but Western advisers report that Ukraine lacks the infrastructure to administer much of the new legislation. [redacted]

Prospects

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[redacted]

[redacted]emelyanov's plan is protectionist and was probably meant for domestic consumption, given its nationalistic tone. It would probably be administered in a way that would emphasize state regulation over reform. [redacted]

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The plan drafted by Lanovyy—and the basis for Ukraine's approach to the IMF—was probably designed for Western consumption, given Kravchuk's desire for obtaining much-needed financial help. It would move Ukraine toward genuine economic reform, but it probably still lacks the support in parliament needed to win approval. Kravchuk and most Ukrainian officials are probably aware that some form of compromise is needed to gain IMF approval, especially if Ukraine hopes to obtain a stabilization fund to back its own currency, which is scheduled for introduction in the second half of 1992. If bold actions are not adopted soon, inflation would probably remain high, shortage of foreign exchange could become chronic, and interrepublic trade would deteriorate further. [redacted]

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